



10/21/86

A8825-1

ANNUAL SUBSCRIPTION

\$48.00 member • \$72.00 non-member

Vol. XII, No. 10

October 17, 1986

The Second Quarter's Failings are Outshined by a Record
First Half for the Industry and Firm Categories

Highlights

1. Bond trading fiascos, particularly in May's long-Treasury market, drove down the industry's and (with minor exception) firm categories' revenues and profits from the first quarter's record heights.
2. Despite the quarter-to-quarter drop, the first half of 1986 witnessed two of the best half dozen quarters in industry profits ever. Also, the third quarter is now projected to join the list, most likely in the number two slot.
3. The first half's 12.7% pre-tax profit margin, if held for the entire year, will also rank in the top six years since records were kept.
4. Capital intensive business lines now dominate the industry's revenue sources and, not surprisingly, these business lines are dominated by the highest capitalized firms.
5. Together, the 10 National Full Line Firms and the 10 Large Investment Banks account for well over half of most of the industry's financial performance barometers and in some cases, such as underwriting profits, trading gains and assets, account for more than four-fifths of the industry's totals.
6. Regional firms displayed a strong start in the first half of the year with new or near record showings in such areas as profits, margins and ROEs, and were also the only firm category to avoid a second quarter profit plunge.
7. NYSE Discounters, the least capital intense category of all, were the only other group besides the Regionals to show a second quarter revenue increase and while higher costs drove profits down 13% in Q2, that fall off was less than any other group sans the Regionals.

TABLE OF CONTENTS

<u>Features:</u>	<u>Page</u>
Highlights	1
Contents	2
The Securities Industry	3
Bond Trading Profit Plunge	4
Industry's Financial Ratios	6
Concentration	7
SIA/SEC Firm Categories	10
Large Investment Banks	11
National Full Line Firms	14
Regional Firms	17
New York City-Based Regional Firms	21
Discounters	22
Commission Introducing Firms	23
All Other Firms	24
Conclusion	24

<u>Tables:</u>	
1. NYSE Firms vs Total Industry	3
2. Top 6 Quarters in Profits	4
3. Industry Revenues	5
4. Industry Expenses	5
5. Top 6 Quarters in Profit Margins	6
6. Return on Equity	6
7. Leverage	7
8. Capital Concentration	7
9. Revenue Concentration	8
10. Revenue Share by Business Line	9
11. Revenues of Large Investment Banks	11
12. Leverage by Firm Category	12
13. Large Investment Banks & National Full Line	13
14. Revenues of National Full Line Firms	14
15. Expenses of National Full Line Firms	15
16. Firm Categories' Share of Revenues	17
17. Firm Categories' Share of Profits	17
18. Revenues of Regional Firms	18
19. Regionals vs Industry, Revenue Breakdown	19
20. Profit Margin by Category	20
21. Return on Equity by Category	20
22. Income Statement of New York City Regionals	21
23. Second Quarter Profit Plunge by Category	22
24. Income Statement of Discounters	22
25. Income Statement of Commission Introducing Firms	23

THE SECURITIES INDUSTRY

In our analysis of the securities industry, SIA relies on the uniform reporting on the FOCUS form of New York Stock Exchange member firms which do a public business. These firms, though relatively few in number compared to all registered broker-dealers, account for the vast majority of the assets, capital, revenues, profits, etc., of the entire securities industry. It is for this reason, together with SIA's access to the NYSE group's quarterly financials, that this group is used as the proxy for the entire securities industry. Therefore, all references in this report to "total securities industry" refer to these NYSE reporting firms. The following tables give the reader the historical share of the NYSE firms doing a public business vs all broker-dealers listed as registered by the SEC.

Table 1

NYSE GROUP'S SHARE OF TOTAL INDUSTRY* (Percent)

<u>Item</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Revenues	80	80	81	81	80	81	77
Assets	84	85	78	86	85	88	86
Capital	66	65	66	70	72	71	70
Equity	63	63	65	69	71	69	68

of Firms

NYSE Group	374	389	390	387	412	393	381
All Firms	4,824	5,283	5,714	6,165	7,429	8,298	8,763

* Total industry based on data appearing in the SEC Monthly Statistical Review, August 1986.

The first striking fact is that the number of all firms has almost doubled over the above time span while the NYSE group remains about the same. Still, though the NYSE group is now down to about 4% of all firms from 8% in 1979, they still maintain about 80% of all revenues and 85% of assets. It is the NYSE group which handles the "core" amount of securities business and, as will be seen later in this report under concentration, the vast amount of the NYSE group's business is handled by the 10 or 25 largest firms.

PROFIT PLUNGE LAID AT BOND TRADING'S DOOR

The securities industry experienced a 32% drop in pre-tax profits, falling from an aggregate quarterly record \$1.9 billion during 1986's first three months to \$1.3 billion during the second quarter.

Rising costs during the period could be branded as partly to blame, since they attributed \$178 million of the \$606 million fall-off in profits. But actually, expenses inched ahead only 1.6% to \$11.1 billion, well below the 25% and 8% of increased costs during the previous two quarters.

Total revenue's decline of \$428 million, or a 3.3% decrease, accounted for the bulk of the fall in income but the results by revenue source were unevenly distributed. The industry had a tough quarter for debt trading and a particularly rough May, especially in long Treasuries, and the income statement reflects it. Gains from trading debt securities alone fell over \$1 billion, or 36%, from Q1 to Q2.

If trading activity results could have just held even with the previous quarter, the industry would have posted a new record \$2.4 billion pre-tax net for the second quarter. But "would have's, could have's" are futile and even with the lower net of \$1.3 billion, 1986's six month pre-tax total reached \$3.2 billion...in easy striking distance of last year's 12-month record of \$4.1 billion in pre-tax profits. Historically, on a quarterly nominal dollar value basis, Q2 was still one of the half dozen best quarters in pre-tax profits for the industry and followed on the heels of the best ever quarter. Preliminary results for the third quarter project about \$1.7 billion in pre-tax net income, which would place it number two on the following table.

Table 2

TOP 6 QUARTERS IN PRE-TAX PROFITS

1986 Q1	- \$1.9 Billion
1982 Q4	- \$1.6 Billion
1985 Q4	- \$1.5 Billion
1983 Q2	- \$1.5 Billion
1983 Q1	- \$1.3 Billion
1986 Q2	- \$1.3 Billion

Aside from the radical drop-off in trading gains, Q2's revenues looked pretty healthy. Only two other major revenue categories were down, commissions and gains from investment accounts, and these were down slightly. Every other major revenue line increased over Q1.

Table 3

TOTAL SECURITIES INDUSTRY REVENUES
(In \$ Millions)

<u>Revenues</u>	<u>1986 Q1</u>	<u>1986 Q2</u>	<u>% Change</u>
Commissions	\$ 2,753.6	\$ 2,687.7	- 2.4%
Gains from Trading	3,956.5	2,817.8	- 28.8
Gains from Investments	567.2	534.9	- 5.7
Underwriting Profits	1,140.9	1,531.5	+ 34.2
Margin Interest	684.2	726.7	+ 6.2
Mutual Fund Sales	634.5	706.6	+ 11.4
Fees	272.2	343.7	+ 26.3
Research Services	4.8	10.1	+110.4
Commodities Revenues	164.2	253.3	+ 54.3
Other Security Related	2,142.6	2,255.3	+ 5.3
Other Unrelated	495.2	520.4	+ 5.1
TOTAL REVENUES	\$12,815.6	\$12,387.5	- 3.3%

On the expense side, the slight rise in costs was practically across the board. Registered representative compensation increased a moderate 3%...but that increase brought RR compensation to a new quarterly record \$2.3 billion, still the single largest cost other than interest expense. Interest expense was a quarterly record \$3.2 billion in 1986 Q2. The increase was held to only 1%, gratis of lower interest rates helping offset the impact of record amounts of debt posted on an increasingly leveraged industry balance sheet.

Table 4

TOTAL SECURITIES INDUSTRY EXPENSES
(In \$ Millions)

<u>Expenses</u>	<u>1986 Q1</u>	<u>1986 Q2</u>	<u>% Change</u>
RR Compensation	\$ 2,230.8	\$ 2,297.2	+ 3.0%
Clerical/Admin. Comp.	2,044.0	2,079.6	+ 1.7
Partner/Officer Comp.	355.2	338.5	- 4.7
Other Employee Comp.	98.5	128.4	+ 30.4
Floor Expenses	412.9	423.2	+ 2.5
Communications	533.5	573.2	+ 7.4
Occupancy & Equipment	509.3	516.6	+ 1.4
Promotional Costs	211.7	252.4	+ 19.2
Interest Expenses	3,134.1	3,168.5	+ 1.1
Losses/Errors/Bad-Debts	109.5	80.4	- 26.6
EDP Costs	145.8	160.9	+ 10.4
Non-Recurring Charges	4.8	44.7	+831.3
Regulatory Fees	61.8	72.9	+ 18.0
Other Expenses	1,055.4	948.4	- 10.1
TOTAL EXPENSES	\$10,907.3	\$11,085.1	+ 1.6%

The only cost areas which were down in the second quarter were partner and officer remuneration; losses/error/bad-debt expenses, and "other" expenses. The \$29 million reduction in the error category was more than wiped out by a \$40 million increase in non-recurring charges. Communications and promotional expenses each climbed by \$40 million while the biggest cost reduction in aggregate dollars, a \$107 million savings, was from the anonymous "other" category, down over 10%.

RATING RATIOS

The industry's pre-tax profit margin fell from an excellent 14.9% in the first quarter to 10.5% over the following three months. Still, for the half, the total industry's pre-tax margin was a very decent 12.7%. If that percentage held for the entire year, 1986 would be the sixth best year by this measurement since records were kept (1973) for profit margins.

Table 5

TOP 6 YEARS IN PRE-TAX PROFIT MARGINS

1976 -	14.2%
1980 -	14.1%
1975 -	13.6%
1982 -	13.1%
1983 -	12.9%
1986 -	12.7%*

*Based on first half

The industry's pre-tax return on equity dove from 44% in the first quarter to 28% in the second. But by combining both quarters, the half's 36% ROE showing is pretty good. Still, ownership equity has increased almost four-fold since 1980, climbing from \$5.4 billion to \$19.2 billion as of June 30, 1986, while earnings have only about doubled. And, even with the high leveraging the industry has undertaken in recent years, it remains difficult to recreate the higher ROEs of yesteryear.

Table 6

PRE-TAX RETURN ON EQUITY

YEAR	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
ROE %	49.2	35.9	40.5	36.6	13.3	29.4	35.7

*Based on first half

The heavy leveraging of the industry, which accelerated greatly starting in 1984, abated somewhat this year, returning to 1984's level. As of June 30, the securities industry's assets were 22 times its equity, lower than the 24X standing at the year's onset but still a historically high leverage standing.

Table 7

LEVEL OF LEVERAGE
(Assets to Equity)

<u>Year</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
A/E	19	18	19	18	22	24	22

*As of 6/30/86, all others at year-end.

CONCENTRATION EASED, BUT BARELY

The 10 largest capitalized firms accounted for 61.4% of the industry's \$25.7 billion in capital on June 30. That's down slightly from the 63.2% they accounted for six months earlier but still a high level of capital concentration. For the 11th through 25th largest firms, their share, after dipping to 14.8% last year, returned to 1983's 15.6% level, which is still relatively low. The remaining NYSE firms in the group increased their capital base at a faster clip than their 25 bigger brethren, accounting for 23% of total capital as of June 30. Still, 23% is far less than the 50% of all capital the non-25-largest firms held back in 1973 (the earliest year of record).

Table 8

CONCENTRATION: % SHARE OF CAPITAL

<u>Year</u>	<u>Top 10</u>	<u>Top 11-25</u>	<u>Rest</u>
1973	35.0	15.2	49.8
1974	40.8	17.2	42.0
1975	42.5	17.0	40.5
1976	43.8	17.5	38.7
1977	43.5	20.8	35.7
1978	44.9	24.0	31.1
1979	45.8	18.8	35.4
1980	50.8	18.0	31.2
1981	50.0	19.7	30.3
1982	54.8	18.3	26.9
1983	52.8	18.8	28.4
1984	57.2	15.6	27.2
1985	63.2	14.8	22.0
1986*	61.4	15.6	23.0

*As of 6/30/86.

Concentration on the revenue side also dipped slightly for the top 10 capitalized firms. Having peaked in 1984's off year at 58.8% of all revenues for these firms, the level fell to 57.5% last year and then to 57.2% as of June 30. But that's still high enough to be one of the most concentrated years ever.

Table 9

CONCENTRATION: % SHARE OF REVENUE

<u>Year</u>	<u>Top 10</u>	<u>Top 11-25</u>	<u>Rest</u>
1973	33.6	14.2	52.2
1974	38.2	17.8	44.0
1975	40.1	18.0	41.9
1976	41.6	18.7	39.7
1977	41.4	21.0	37.6
1978	44.5	26.2	29.3
1979	48.7	18.6	32.7
1980	53.1	19.4	27.5
1981	55.6	18.7	25.7
1982	57.3	18.7	24.0
1983	54.4	19.6	26.0
1984	58.8	17.1	24.1
1985	57.5	19.7	22.8
1986*	57.2	19.6	23.2

*As of 6/30/86.

The biggest factor in the large capitalized firms' success in capturing the majority of revenues is that over the years they have built up a very successful and huge money machine in capital intensive business lines. Two of the most capital intense revenue sources are trading and investments. On the opposite end of the spectrum, commissions are probably the least capital intensive revenue source. The next table shows how the capital intense revenue sources have grown in importance to total industry revenues while non-capital intense sources have declined. Both have grown in aggregate dollars, however. Trading and investment revenues have gone from a mere 8% of all industry revenues back in 1973 to nearly a third of the total today. Meanwhile, commissions have fallen from more than half of all industry revenues in 1973 to about one-fifth of the total recently.

To look at it another way, while commissions have expanded three-fold from 1973 to 1985, revenues from trading and investments have multiplied more than 27-fold!

Naturally the biggest capitalized firms generate the majority of the revenues from capital intense business lines. For the first six months of this year the ten largest capitalized firms accounted for 64% of all the industry's trading and investment revenues. For the 25 largest, the figure is an astounding 82.5%!

Table 10

BUSINESS LINE'S SHARE OF INDUSTRY REVENUES

<u>Year</u>	<u>Trading & Investments</u>	<u>Commissions</u>
1973	8.4	55.4
1974	12.8	49.1
1975	15.6	49.9
1976	20.3	45.8
1977	19.3	41.7
1978	17.5	42.8
1979	23.6	35.8
1980	23.1	35.4
1981	24.3	27.0
1982	28.2	25.9
1983	25.6	28.2
1984	26.5	22.7
1985	28.5	21.3
1986*	31.3	21.6

*As of 6/30/86.

As far as the non-10 largest's share of revenues, the top 11-25 tier held pretty even with 19.6% of revenues in 1986 vs. 19.7% last year, but that's still not close to its record 26.2% back in 1978. For the rest of the industry, the slight increase from 22% last year to 23% in this year's first half is not much to celebrate over since it's the second lowest percentage showing ever. In effect, the big are getting bigger!

RESULTS BY SIA/SEC FIRM CATEGORIES

Periodically, SIA, in conjunction with the New York Stock Exchange and the Securities & Exchange Commission, re-appraise the NYSE reporting firms in order to ensure that industry data are based on the most recent and accurate categorization. The most recent such re-appraisal was completed after a four-month study and the new classification list is attached to this report.

A couple of changes in the new classifications warrant notice. First, the "Traders & Market Makers" and "Clearing" categories, each of which had fallen to less than 10 firms apiece, have been eliminated (the firms in these categories are thus reclassified...not eliminated). Second, "Discounters" are no longer distinguished between "carrying" and "non-carrying." Finally, new revenue thresholds (which are delineated on the attached list) were needed for our "large/medium/small" break-outs due to the growth within the industry.

The reclassification better reflects the present industry make-up and, in most cases, does not affect the continuity of each firm category's year-to-year results. Both the "Large Investment Banks" and the "National Full Line" firms had no changes whatsoever.

For Regional firms, though there were some minor changes in the total group as well as new revenue cut-off points, the category remains comparable to prior years. New York City regional firms as a group were affected somewhat as were the "large/small" sub-categories, which should be kept in mind if comparing 1986 to prior years, particularly for aggregate dollar amounts. The NYSE "Discounters" after 1985 can no longer be divided into carrying and non-carrying (there had been little demand for this distinction), and also were affected to a degree where prior year comparisons become difficult in some areas, particularly aggregates.

The "Commission Introducing" category (non-carrying, non-clearing firms which file an abbreviated FOCUS form), was affected to a degree that results prior to 1986 should not be compared to current or future results! The same applies to the catch-all "Other" category.

LARGE INVESTMENT BANKS

The 10 large investment banks took the biggest hit in debt trading losses in the second quarter. This group accounted for \$638 million of the \$1 billion drop in bond trading revenues from Q1 to Q2 1986. Still, thanks to a great first quarter, the six-month bond trading gains are \$2.1 billion, which when annualized will still make this revenue source break \$4 billion in 1986, up 40% over last year's record showing for this group and a record for any of the firm categories.

Other than trading gains, all other revenue sources for the large investment banks showed a quarter-to-quarter increase with the exception of underwriting revenues, down a mere 3.5%. Annualizing the LIB's six month results, however, shows that every major revenue line should attain record results this year.

Table 11

LARGE INVESTMENT BANK REVENUES (In \$ Millions)

<u>Revenues</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Commissions	803	1,216	1,068	1,127	1,462
Trading Gains	2,675	2,708	3,397	3,876	5,526
Debt Trading Portion	2,095	2,013	2,702	3,021	4,204
Gains from Investments	217	365	364	409	1,041
Underwriting	560	1,051	734	1,377	1,751
Margin Interest	183	269	385	374	483
TOTAL REVENUES	6,944	8,209	10,103	12,098	15,323

*Annualized, based on first half.

Unlike the plunge in trading gains from quarter to quarter, the LIBs have done well in investments for their own accounts. After a great showing of \$236 million net in this category for 1986 Q1, the net gain climbed to \$284 million in Q2. At that pace, the LIBs will exceed last year's record \$409 million gain by 155%, with a \$1 billion showing. Also, commissions for the LIBs are running at an annual \$1.5 billion record pace.

Meanwhile, underwriting profits should reach a record \$1.8 billion this year. The \$876 million in underwriting profits these 10 firms earned during the half was exactly one-third of all underwriting profits during the period. According to "IDD Information Services," these same firms lead-managed the underwritings of a third of the dollar volume of all municipal offerings during the period and 62% of the corporate underwritings. That's just over half of the dollar amount of all underwritings but since the LIBs are heavy on the corporate debt underwriting side, where margins are thinner, the profits are only one-third, not one-half, of the total industry's results.

The biggest expense item for the LIBs is interest expense. Last year, the LIBs paid a record \$5.2 billion in interest and at the first half's pace, 1986's interest will cost them an additional \$1 billion more, or 44% of all revenues. For the second quarter alone, interest ate up 46% of the LIBs revenues! The LIBs have been successful at using high levels of leverage to return high profit margins, but at these heady levels the risk/reward ratio could be more risk if the interest rate environment ever swings back to an early-Eighties type environment.

Next to interest, the LIBs biggest expense is people costs. All told, this year's first half showed \$2 billion in this area vs a record \$2.8 billion for all of last year. At that pace, payroll will jump \$1 billion this year or 38%! Half of that cost goes to clerical and administrative employees and only 18% to registered representatives whereas for the industry as a whole, half goes to brokers. Of course, the LIB registered representative is almost exclusively an institutional broker where the payouts, in percentage terms, are half the level of the retail RR, according to SIA's "Report on Production and Earnings of RRs in 1985," an annual publication based on confidential surveys of member organizations. Conversely, the LIBs are operating with vastly fewer RRs each grossing on average five times a retail RR's production and each keeping only half the retail broker's percentage payout!

Again, even with total expenses running at a record \$13.2 billion annual rate, the LIBs annual pre-tax net income this year should hit \$2.1 billion, which will exceed last year's record \$1.8 billion by 16%!

Table 12

<u>Firm Category</u>	<u>LEVEL OF LEVERAGE</u> (Assets to Equity)						
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Large Investment Banks	32	31	34	31	36	42	38
Total Industry	19	18	19	18	22	24	22
National Full Line	15	14	13	15	18	18	16

*As of 6/30/86, all others at year-end.

The two most highly leveraged category of firms are the LIBs and the NFLs. All other categories, such as Discounters, Regionals and New York City firms, have historically had lower, in some cases, much lower leverage ratios. The LIBs super high leverage ratio, combined with the fact that they have more than half of all assets, drives the total securities industry leverage ratio higher than all firm categories except the LIBs themselves. As of mid-year, the LIBs had record assets of \$225.5 billion, nearly a quarter of a trillion dollars!

The "Large" in these 10 firms' category's name is well deserved. Making up less than 3% of all the NYSE firms doing a public business, they account for huge percentages of the group's numbers and are only equaled or surpassed in some areas by one other group, the 10 National Full Line firms.

Table 13

LIB AND NFL % SHARE OF 1986 TOTAL INDUSTRY BUSINESS

<u>Business:</u>	<u>LIBs</u>	<u>NFLs</u>	<u>BOTH*</u>
Assets	54	29	83
Capital	33	41	74
Equity	31	39	70
Pre-Tax Profits	32	28	60
Revenues	30	44	74
Expenses	30	46	76
Commission Revenues	13	44	58
Trading Gains	41	41	82
Investment Gains	47	6	53
Underwriting Profits	33	50	82
Margin Interest	17	51	68
Mutual Funds	2	71	73
RR Compensation	16	60	76
All Employee Compensation	20	53	73
Employees	13	59	73

*May not add due to rounding.

As can be seen by the preceding table, in terms of market share the LIBs and the NFLs dominate the industry and their results will weigh very heavily in the aggregates of the "total" securities industry.

Even if these 20 firms are compared to the nearly 9,000 total broker dealers, where they are only 0.2% of the group, they still account for more than half of much of the securities business including assets, capital, revenues and expenses.

NATIONAL FULL LINE FIRMS

The National Full Line firms' bond trading departments also took a beating in the second quarter. After posting revenues of \$1.6 billion from trading gains in the first quarter, Q2's \$1.1 billion was down 30%. The majority of both figures was from bond trading which alone fell 47% from quarter to quarter. All other revenue sources in the second quarter either held at or rose above Q1 levels. Total revenues remained even at \$5.5 billion each quarter. The bottom line, however, suffered from higher costs in Q2 with pre-tax net income plunging 40% from \$572 million in Q1 to \$341 million in Q2. But the results of both quarters combined shows \$913 million of net income already sewn-up, almost equal to last year's 12-month sum of \$940 million. Annualized, net income should be \$1.8 billion this year or 65% higher than 1983's record \$1.1 billion for these 10 firms.

Total revenues should also climb 31% over last year to a new record \$22 billion. All of the revenue components will exceed last year's results and, with the exception of margin interest, will set new records. Commissions will rise 31%, mutual fund sale revenues will be up 41%, trading gains will be up 36%, underwriting will be up 28%, but margin interest will climb only 7% to \$1.4 billion, less than 1984's record \$1.5 billion.

Table 14

NATIONAL FULL LINE REVENUES
(In \$ Millions)

<u>Revenues</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Commissions	2,697	3,629	2,936	3,524	4,801
Trading Gains	2,280	2,892	3,038	4,506	5,977
Debt Trading Portion	1,854	1,991	2,338	3,460	4,398
Gains from Investments	8	37	110	92	126
Underwriting	1,255	1,593	1,457	2,075	2,648
Margin Interest	1,174	1,201	1,547	1,357	1,448
TOTAL REVENUES	\$ 9,889	12,923	13,066	16,712	21,944

*Annualized, based on first half.

The 50% of record underwriting profits the NFLs were able to garner in the first half was all the more impressive since, according to "IDD Information Services," these 10 firms ran the books for only a third of the dollar value of all corporate and all municipal underwritings during the same period. But the NFLs are much more equity-oriented than their LIB cousins, and that's where the larger commission spreads are.

The NFLs have also been capitalizing on the growing popularity of mutual funds, capturing \$1 billion from January through June in sales of open-ended funds, exclusive of management fees. In fact, they captured 71% of all revenues from this source which the NYSE firms earned during the half. And since the household sector has been pouring their savings into mutuals since 1982, going from \$90 billion or 1.7% of their total financial assets in 1982 to nearly \$400 billion or 4.6% of total assets this year, the NFLs are well poised for what appears to be continued profitable growth from this sector.

While revenues are expanding to record levels, the expense side of the income statement is doing likewise. Here there is some good news and bad news...so first the bad. Expenses this year are running at a record \$20 billion annual pace. That's 28% higher than last year's record \$16 billion in expenses. The good...revenues' projected 31% increase this year outpaces expenses' 28% climb, leaving a hefty 94% projected increase in pre-tax net income for the NFLs.

Table 15

NATIONAL FULL LINE EXPENSES
(In \$ Millions)

<u>Expenses</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
RR Compensation	2,452	3,451	3,246	4,137	5,434
All Other Compensation	2,088	2,804	2,921	3,602	4,700
Floor Expenses	308	362	347	374	446
Communications	767	923	1,066	1,157	1,310
Occupancy & Equipment	473	630	861	1,068	1,163
Promotional Costs	325	468	457	500	539
WDP Expenses	139	148	197	182	221
Interest Expenses	1,466	1,757	2,822	3,187	4,139
TOTAL EXPENSES	9,018	11,814	13,184	15,773	20,118

*Annualized, based on first half.

RR compensation is still the number one expense for the National Full Line firms, eating up a quarter of all revenues so far this year. When you add in all other compensation (clerical, administration, bonuses, officer and partner compensation, etc.) nearly half of the NFLs revenues are already spoken for. This compares to just one-quarter of all revenues going for people costs at the Large Investment Banks. But the LIBs are operating mainly in the capital intensive, high return (with corresponding high risk) business areas with revenues per employee about four times that of the NFLs and profits per employee about ten times the NFL's. And, as seen before, the branch network, retail oriented NFLs are operating in an environment as such that they employ five times the number of employees as the LIBs and their retail RRs, the bulk of their broker force, receive double the percentage payout of the institutional RR (virtually the only sales force of the LIBs).

The next biggest expense is interest costs which should break \$4 billion this year based on the first half's results. Though this eats up a smaller percent of all revenues than the LIBs, 19% vs 44%, it still has a big enough impact on the bottom line that the NFLs' leveraged balance sheet is also vulnerable should the early 80s rate environment resurface.

It is these two costs, payroll and interest, which are increasing at a very fast clip. Each are projected to increase about 30% this year. Together these costs represented 71% of all NFL expenses this year.

The NFLs have had more success in holding down cost increases in other areas. Based on first half results, communication costs will rise only 13% this year and occupancy and equipment cost increases should be under 9%. Promotional spending is running less than 8% ahead of last year's rate and though floor costs and data processing expenses are headed toward 20% increases, that's a lot less than the 30% increases in people and interest expenses.

The NFLs have also been able to improve their margins this year. Their pre-tax profit margins, return on equity, their share of industry revenues and profits have all increased to the best levels since 1983 (see following Tables 16, 17, 20 and 21). The bottom line is the bottom line...NFL's pre-tax net income is projected to reach a record \$1.8 billion this year.

REGIONAL FIRMS

On June 30th of this year, there were 94 non-New-York-based Regional firms out of the 364 New York Stock Exchange firms doing a public business, or 26% of the total. This group has for 2 1/2 years accounted for 10% of the NYSE firms' revenues. This is lower than the 14% they had in 1980-81 or the 12% in 1982-83.

Table 16

FIRM CATEGORY'S % SHARE OF REVENUES

<u>Firms</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Regionals	14	14	12	12	10	10	10
National Full Line	46	42	43	44	42	43	44
Large Investment Banks	23	29	30	28	32	31	30

*For first half

This does not mean that Regional firms' revenues have been decreasing, in fact this year Regionals should out-do last year's record revenues. It does mean, however, that other firms are increasing their revenues faster than the Regionals. In this case it is the 10 Large Investment Banks which as a group have increased their share of industry revenues from 23% in 1980 to 30% this year.

At the bottom line, the picture is a little better. Regionals' share of pre-tax profits this year is at least back to matching their share of revenues, now 10%. In 1984, though Regionals captured 10% of revenues, they captured only 5% of profits.

Table 17

FIRM CATEGORY'S % SHARE OF PRE-TAX PROFITS

<u>Firms</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Regionals	15	14	10	12	5	9	10
National Full Line	35	27	29	29	(7)	23	28
Large Investment Banks	29	41	40	36	72	43	32

*For first half

As far as total profits of Regionals are concerned, this year should exceed 1983's record pre-tax net of \$458 million and, as will be discussed a little later, their return on equity is at record levels also.

THIS YEAR'S QUARTERS

For the Regional firms, 1986's second quarter didn't look much different than the first. But that's good since both were outstanding quarters and have assured a record-breaking year for these firms as a whole. Revenues were up 3.6% in the second quarter for Regionals while the industry as a whole showed a 3.3% decline. Profits were flat from quarter to quarter at about \$160 million each. Annualized, that will give the Regionals a \$640 million pre-tax profit this year, 40% higher than the previous record \$458 million back in 1983. The fact that Regional firms in the second quarter were able to maintain their revenue and profit levels at first quarter levels is impressive since they were the only firm category to do so (though the NYSE Discounters did so for just revenues).

And though total revenues were about even, \$1.2 billion in Q1 vs \$1.3 billion in Q2, the sources of revenue showed some ups and downs. Underwriting revenue was up a healthy 41% and is running at such a pace that it should exceed both 1983's and 1985's record levels. On the other hand, trading gains fell 14% in the second quarter, from \$261 million to \$226 million, but that's not so bad considering these gains fell 29% for the industry as a whole and are still running at an annualized \$1 billion pace for Regionals, which would be a new yearly record. Mutual fund revenues also were up 15%, mirroring the explosion in these sales throughout all retail firms, and should finish the year at double last year's record amount.

Table 18

REVENUES OF REGIONAL FIRMS
(In \$ Millions)

<u>Revenues</u>	<u>1986 Q1</u>	<u>1986 Q2</u>	<u>% Change</u>
Commissions	\$ 442.1	\$ 424.7	- 4%
Trading Gains	260.9	225.8	- 14
Gains from Investments	20.9	15.9	- 24
Underwriting Profits	133.8	188.2	+ 41
Margin Interest	68.9	67.8	- 2
Mutual Fund Sales	150.7	172.7	+ 15
Fee Income	17.5	20.3	+ 16
Research	2.3	3.3	+ 44
Commodities	10.9	13.4	+ 23
Other Securities Related	95.6	120.7	+ 26
Other	27.8	23.4	- 16
TOTAL REVENUES	\$1,231.3	\$1,276.2	+ 4%
PRE-TAX PROFITS	\$ 160.9	\$ 159.4	- 1%

RELATIVE IMPORTANCE OF REVENUE SOURCES

Though in aggregate, most revenue sources for Regionals are headed to record levels this year, some source's contribution to the bottom line have increased in importance over the years while others have decreased. Commissions have always been the number one source of revenues for Regional firms and still are today. However, in recent years, commissions have hovered at just over a third of all Regional revenues while six years ago it was closer to half. The decreasing importance of commissions for Regionals is not as drastic as it has been for the total industry which over the same time span has seen commissions' share fall to one-fifth of all revenue. Trading gains have slowly increased to 19% of Regional's revenues while for the entire industry, trading has become the number one revenue source providing over a quarter of all industry revenues.

Regional firms have more than matched the industry's growth in mutual fund sales revenues. These sales provided 13% of Regionals' revenues for this year's first half compared to less than 2% five years ago. Underwriting remains a steady stream of income for Regionals despite the drastic reduction in size of syndicates, the large number of deals not even syndicated and the dominance of corporate underwritings, particularly bonds, by several large New York firms.

Table 19

PERCENTAGE SHARE OF TOTAL REVENUES

<u>Regional Firms</u>							
<u>Revenues</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Commissions	46	36	37	39	36	34	35
Trading Gains	14	15	18	16	16	18	19
Investments	1	1	2	1	1	1	2
Underwriting	11	12	13	17	12	15	13
Margin Interest	14	19	11	9	12	7	6
Mutual Fund Sales	2	2	2	4	5	9	13

<u>Total Industry</u>							
<u>Revenues</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Commissions	35	27	26	28	23	21	22
Trading Gains	20	21	26	23	24	26	27
Investments	4	3	3	3	2	3	4
Underwriting	8	8	10	12	9	11	11
Margin Interest	13	15	9	7	9	7	6
Mutual Fund Sales	1	1	1	3	2	4	5

*For first half

REGIONAL'S RATIOS

For the first time in five years, Regional firms' profit margins have climbed above the industry average, although just barely. For the first six months of this year, Regionals had a 12.8% pre-tax margin vs 12.7% for the industry. It was also higher than any full-year margin for the Regionals since 1980's 14.7% showing.

Table 20

PRE-TAX PROFIT MARGINS (In Percent)

<u>Firm Category</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Regionals	14.7	11.2	11.1	12.6	2.6	9.4	12.8
National Full Line	10.9	6.9	8.8	8.6	(0.9)	5.6	8.3
Large Investment Banks	17.7	15.4	17.4	16.7	11.4	14.6	13.4
Total Industry	14.1	10.8	13.1	12.9	5.2	10.7	12.7

*For first half

Regional's pre-tax return on equity has climbed way back up since 1984's poor showing of 6.8%. It now exceeds that of the LIBs, the NFLs and the industry as a whole. That's even more impressive when you consider that the Regionals' returns are measured against an equity base that is 15.4% of their total assets vs 6.3% for the NFLs, 2.5% for the LIBs or 4.6% for the total industry! Of course the Regionals operate in a much less capital intense environment than the NFLs or LIBs, with, for example, 35% of their revenues coming from the non-capital necessary source, commissions.

Table 21

PRE-TAX ROE

<u>Firm Category</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
Regionals	37.2	36.0	40.5	6.8	29.0	40.7
National Full Line	24.6	29.8	28.1	(2.6)	17.9	25.9
Large Investment Banks	56.7	54.8	43.8	31.1	38.5	36.9
Total Industry	35.9	40.5	36.6	13.3	29.4	35.7

*For first half

Though Regionals have lost some industry footing in some areas while gaining in others, the big picture is this group will show an impressive 69% year-to-year increase in profitability to a record \$641 million in pre-tax net income.

NEW YORK CITY-BASED REGIONALS

The quarter to quarter picture for the New York City-Based Regional firms pretty much mirrored the results of the other firm categories as well as the total industry. Trading gains dropped sharply in the second quarter as did realized and unrealized gains from these firms' own investment accounts. Underwriting profits were up sharply while commission revenues and mutual fund sale revenues were flat, but flat at nice levels. Total revenues dropped 7%, mainly from the bond market environment during the second quarter.

Table 22

NEW YORK CITY-BASED REGIONAL'S INCOME STATEMENT
(In \$ Millions)

<u>Revenues</u>	<u>1986 Q1</u>	<u>1986 Q2</u>	<u>% Change</u>
Commissions	\$ 334.4	\$ 332.7	- 1%
Trading Gains	229.8	180.9	- 21
Gains from Investments	80.2	51.1	- 36
Underwriting Profits	33.7	51.9	+ 54
Margin Interest	43.3	40.3	- 7
Mutual Fund Sales	13.0	13.1	+ 1
Fee Income	55.8	60.5	+ 8
TOTAL REVENUES	\$1,018.9	\$ 947.0	- 7%
<u>Expenses</u>			
RR Compensation	\$ 131.2	\$ 114.8	- 13%
All Other Compensation	221.2	246.0	+ 11
Floor Expenses	64.0	60.2	- 6
Communications	31.3	29.1	- 7
Occupancy & Equipment	32.5	33.0	+ 2
Promotional Costs	14.9	15.0	+ 1
Interest Expense	154.3	177.2	+ 15
TOTAL EXPENSES	\$ 765.7	\$ 795.8	+ 4%
PRE-TAX PROFITS	\$ 253.2	\$ 151.2	- 40%

Expenses climbed a total of 4% but not across the board. Broker compensation actually fell 13% in the second quarter but the savings was more than wiped out by other employee, including officer and partner remuneration, pay-outs. The 15% increase in interest expense almost made up the entire \$30 million cost increase for the NYCs in 1986 Q2. Combining the 7% drop in revenues with the 4% cost increases summed up to a 40% drop in profitability for the NYCs in 1986 Q2.

The NYCs' ROE for the first half is hovering around 50%, about matching their best years. This was accomplished, however, on a leveraged balance sheet with their assets to equity matching the NFLs at 16 times equity, up from 14 times last year. The NYCs' pre-tax profit margin, meanwhile, was slashed from 24.9% to 16.0%.

DISCOUNTERS

On a quarter to quarter basis in this year's first half, the NYSE-member Discounters maintained their excellent first quarter results better than any other group except the Regional firms. Other than the 1% decline in profits for the Regionals, the Discounters 13% profit decline was mild compared to the 30%-to-40+% drops for other groups.

Table 23

1986 Q2 VS Q1 PROFIT PLUNGE

Regionals	- 1%
Discounters	- 13%
Large Investment Banks	- 28%
Total Industry	- 32%
All Other Firms	- 32%
National Full Line	- 40%
New York City-Based	- 40%
Commission Introducing	- 43%

The decline in profits was entirely due to increased costs for the Discounters since they, as well as the Regional firms, managed to increase their second quarter revenues. The two principal product lines for Discounters, commissions making up 60% of revenues and margin making up an additional 16%, were both up in the second quarter. This brought total revenues up 3% to \$229 million in the second quarter and Discounters should finish the year with a record \$900 million in revenues.

Table 24

NYSE DISCOUNTER'S INCOME STATEMENT (In \$ Millions)

<u>Revenues</u>	<u>1986 Q1</u>	<u>1986 Q2</u>	<u>% Change</u>
Commissions	\$133.9	\$137.8	+ 3%
Trading Gains	2.5	2.3	- 8
Gains from Investments	5.7	2.3	- 43
Margin Interest	34.8	37.8	+ 9
TOTAL REVENUES	\$223.0	\$228.7	+ 3%
<u>Expenses</u>			
RR Compensation	\$ 5.4	\$ 5.9	+ 9%
All Other Compensation	42.2	45.8	+ 9
Floor Expenses	37.6	35.9	- 5
Communications	10.0	11.4	+ 14
Occupancy & Equipment	9.3	9.9	+ 6
Promotional Costs	6.6	4.8	- 27
Interest Expense	29.9	29.9	NC
EDP costs	10.9	10.6	- 3
TOTAL EXPENSES	\$180.2	\$191.4	+ 6%
PRE-TAX PROFITS	\$ 42.8	\$ 37.3	- 13%

Still, the revenue gains were more than offset by higher costs in Q2. Expenses increased at twice the pace of revenue gains, 6% or \$11.2 million, leaving pre-tax net for Q2 down 13% to \$37.3 million.

As stated earlier, the total industry and all firm categories are analyzed using those firms in each category which are members of the New York Stock Exchange and are doing a public business. And as shown, these firms are representing the vast majority of the securities business. However, for Discounters, which like other categories also have several firms with a large concentration of their particular market, their has been demonstrated a very high interest for SIA to provide additional financial information beyond just the NYSE group.

To that end, SIA is currently compiling a comprehensive list of discount brokers in the U.S. in order to attempt to obtain as much additional financial data as possible on discounters beyond the NYSE group for future analysis and publication (hopefully soon).

COMMISSION INTRODUCING FIRMS

The Commission Introducing firms, broker-dealers which do not clear or carry their own customer accounts and thus file an abbreviated FOCUS Part IIA short form, showed the biggest percentage drop in earnings of any firm category...43%. Even though these firms managed to hold expenses even from quarter to quarter, reduced commissions and trading and investment gains, their principal business, caused the entire downturn.

Table 25

COMMISSION INTRODUCING FIRMS' INCOME STATEMENT (In \$ Millions)

<u>Revenues</u>	<u>1986 Q1</u>	<u>1986 Q2</u>	<u>% Change</u>
Commissions	\$106.7	\$ 97.5	- 9%
Trading Gains	24.0	20.8	- 13
Gains from Investments	21.2	8.1	- 62
Underwriting	5.8	6.5	+ 12
Fees	13.2	13.6	+ 3
TOTAL REVENUES	\$196.2	\$167.5	- 15%
<u>Expenses</u>			
Employee Compensation	\$ 45.8	\$ 51.0	+ 11%
Floor Expenses	18.5	17.0	- 8
Interest Expense	4.4	3.9	- 11
TOTAL EXPENSES	\$128.7	\$128.9	NC
PRE-TAX PROFITS	\$ 67.5	\$ 38.6	- 43%

ALL OTHER FIRMS

The remaining non-categorized firms also showed a steep earnings drop, 32%, from 1986 Q1 to Q2. Revenues fell from \$675 million to \$607 million, again mainly from big drops in trading and investment gains, while expenses held even at \$460 million per quarter.

CONCLUSION

The bond market problems this Spring caused an across the board reduction in second quarter earnings relative to the first quarter. Most other business lines for most firms showed improvements, sometimes very healthy improvements.

The six month results are of such a historically high magnitude that barring an unforeseen disaster, 1986 is guaranteed a place in the record books for revenues, profits and gains in most, if not all, business lines.

As of this writing, preliminary FOCUS results from 15 of the largest firms indicate third quarter revenues will hit new highs for the industry of around \$13 billion and pre-tax profits falling in the \$1.7 billion neighborhood. If the final figures for Q3 match the projections, the annualized figures throughout this report, which project numerous record breaking results, will actually prove a bit on the conservative side!

George R. Monahan
Assistant Director
of Research

VOLUME

	JULY 1986	JAN - JULY 1986	JULY 1985	JAN - JULY 1985	% CHAN. J-JL 1986-1985
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	137.7	140.4	112.0	108.4	29.6%
AMEX (MILS.)*	10.3	12.8	7.3	8.2	56.4%
NASDAQ (MILS.)*	110.7	119.9	72.4	78.6	52.6%
REGIONAL EXCHANGE (MILS.)*	22.6	23.4	18.1	18.7	25.0%
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	\$118,057	\$794,553	\$88,134	\$561,107	41.6%
AMEX (MILS.)	3,671	26,342	2,168	14,964	76.0%
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	9,143	65,074	7,393	48,942	33.0%
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	17,422	129,095	15,600	109,993	17.4%
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	49.6%	49.4%	53.3%	51.8%	----
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	16,050	109,671	11,617	82,302	33.3%
AMEX OPTIONS	5,806	29,958	3,128	19,714	52.0%
COMMODITY	15,080	110,859	13,866	92,266	20.2%

*MONTHLY AVERAGE

YIELDS

(MONTHLY AVERAGES)

BOND BUYER INDEX (20 BOND)
CORPORATE BOND YIELDS (MOODY'S)
Aaa CORPORATE
Baa CORPORATE
RATIO Aaa CORPS. TO Baa CORPS.
MUNICIPAL BOND YIELDS (MOODY'S)

SEPTEMBER 1986	SEPTEMBER 1985	BASIS POINT CHG. 1986-1985
7.11%	9.27%	(216)
8.89	11.07	(218)
10.20	12.48	(228)
0.87	1.89	(2)
7.11	9.27	(216)

PRICES (END OF MONTH)

DOW JONES INDUSTRIALS
STANDARD & POOR'S 500
NYSE COMPOSITE
AMEX MARKET VALUE INDEX
VALUE LINE COMPOSITE
NASDAQ COMPOSITE

SEPTEMBER 1986	SEPTEMBER 1985	% CHAN. Y-T-D 1986-1985
1767.58	1328.63	33.04%
231.32	182.08	27.04%
133.44	105.19	26.86%
260.69	222.31	17.26%
222.08	189.01	17.50%
350.67	280.33	25.09%

UNDERWRITING

	SEPTEMBER 1986	SEPTEMBER 1985	% Change 1986-1985
CORPORATE FINANCING (Gross New Issues - \$ Mils)			
TOTAL	\$16,431.2	\$10,561.8	55.6%
Common Stock	\$1,585.8	\$2,215.7	-28.4%
# of Common Stock Issues	70	48	45.8%
Preferred Stock	\$798.6	\$666.1	19.9%
# of Preferred Stock Issues	9	9	0.0%
Corporate Debt	\$14,046.7	\$7,680.0	82.9%
# of Corporate Debt Issues	104	80	30.0%
MUNICIPAL FINANCING (Gross New Issues - \$ Mils)			
Negotiated	\$3,904.8	\$11,356.7	-65.6%
# of Issues	75	299	-74.9%
Competitive	\$1,277.0	\$2,324.2	-45.1%
# of Issues	38	90	-57.8%

Source: IDD Information Services

RECENT INTERESTING READING AND STATISTICAL MATERIAL

<u>Item</u>	<u>Description</u>	<u>Source</u>
<u>Report on Office Salaries</u>	Annual SIA survey providing detailed current information on compensation of 78 non-exempt clerical, secretarial, sales assistant, administrative, and "back office" positions. Also includes historical trends data and a breakdown of salaries in 26 major metropolitan areas as well as New York.	SIA Survey Department \$400 Members \$1,200 Non-members
"Taxing Decision -- Should You Take Your Gains This Year?"	Example-filled article of factors to consider in making the decision to take long-term capital gains this year at 20%, given the rate increase to 28% in 1987. Also includes reference chart calculating gain needed to justify holding.	Barron's 10/6/86
"Snapshots of the Third Quarter"	While Salomon has kept its lock on the number one spot in the underwriting rankings, Drexel Burnham and Morgan Stanley have secured their positions among the upper echelon this recent third quarter. Third quarter corporate underwritings totaled about \$50 billion, compared with \$75.6 billion in the second quarter. Underwriting ranking tables for first nine months of 1986.	Investment Dealers' Digest 10/6/86
"The Recent Performance of the Commercial Banking Industry"	Summary article of the main findings of a bank study on the recent performance of the commercial banking industry and the factors that have influenced it. Aim of the study was to understand past rather than to foretell the future. Among the implications of the study is the fact that, outside the decline in banks' share of wholesale lending, there has been no substantial slippage in other traditional markets to date.	Quarterly Review Federal Reserve Bank of New York Summer 1986

**"Foreign Banking in America --
1985 Directory"**

Accelerated worldwide banking deregulation and the continuing internationalization of corporate business activity has fueled the number of U.S. branches of foreign financial institutions. Although the rate of growth has slowed during the past two years, the number of foreign banks and securities firms with U.S. offices reached an all-time high of 459 as of July 30. Directory listing by country includes names of senior officers.

Institutional Investor
9/1/86

"Futurescope"

A look at the factors affecting the securities industry and their impact. Globalization of capital markets was voted as the most dramatic event. The reason cited is the fact that a truly diversified portfolio must encompass not only different companies and industries, but also different countries, currencies, and demographics. Other factors reviewed: discount brokerage, bank competition and individual investors.

Registered Representative
September 1986

Market Statistics 1986 -- CBOE

Handy 44-page reference booklet containing 1985 historical and statistical data on CBOE activity. Divided into 5 sections which include information on stock options, interest rate options and foreign currency options.

The Chicago Board
Options Exchange
LaSalle at Van Buren
Chicago, Illinois 60605

Deposit Insurance -- Analysis
of Reform Proposals

Comprehensive study published in two volumes. Major issues posed by deposit insurance reform are addressed. Supplementary information discusses: 1. how deposit insurance works, 2. interrelationships among bank risk, deposit insurance, and bank capital, 3. history of deposit insurance, 4. changes in the financial services industry that bring into question the special nature of insured deposits and institutions, and 5. the operations of individual funds.

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, Maryland 20877

SIA/SEC FIRM CATEGORY LIST

(364 Firms as of 7/1/86)

1. National Full Line (10)
2. Large Investment Banks (10)
3. Small New York City (36)
4. Large New York City (36)
5. Small Regionals (40)
6. Medium Regionals (31)
7. Large Regionals (23)
8. Discounters (27)
9. Commission Introducing (114)
10. Other (37)

Based on 1985 unconsolidated FOCUS revenues:
Small NYC - under \$20 million
Large NYC - \$20 million or more
Small Regional - under \$20 million
Medium Regional - \$20 million to \$70 million
Large Regional - \$70 million or more

NATIONAL FULL LINE

Drexel Burnham Lambert Inc.
A.G. Edwards & Sons, Inc.
E.F. Hutton & Co.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
PaineWebber Inc.
Prudential-Bache Securities Inc.
Shearson Lehman Brothers Inc.
Smith Barney, Harris Upham & Co.
Thomson McKinnon Securities Inc.
Dean Witter Reynolds Inc.

LARGE INVESTMENT BANKING

Bear, Stearns & Co.
Dillon, Read & Co.
First Boston Corp.
Goldman, Sachs & Co.
Kidder, Peabody & Co.
Lazard Freres & Co.
Morgan Stanley & Co.
L.F. Rothschild, Unterberg, Towbin Inc.
Salomon Brothers Inc
Wertheim & Co.

SMALL NYC BASED

Baird, Patrick & Co.
BHF Securities
Burns Fry & Timmins Inc.
Challenge Securities Inc.
Doft & Co., Inc.
EuroPartners Securities Corp.
Evans & Co.
Gintelco Inc.
Oscar Gruss & Son Inc.
Haas Securities Corp.
Hornblower Fischer & Co. Inc.
Ingalls & Snyder
Invemed Associates Inc.
Jesup & Lamont Securities Co. Inc.
Kalb, Voorhis & Co.
Kleinwort Benson Inc.
Henry Krieger & Co.
Lepercq, de Neufelize Securities Inc.
Lieber & Co.
William D. Mayer & Co.
McLeod Young Weir Inc.
Muller & Co.
Nesbitt Thomson Securities, Inc.
Oxford Financial Group
Purcell Graham & Co.
Reich & Co.
Richardson Greenshields Securities Inc.
Seligman Securities, Inc.
Shatkin-Lee Securities Co.
J. Streicher & Co.
Swiss American Securities Inc.
Swiss Bank Corp. International Securities Inc.
Edward A. Viner & Co.
S.G. Warburg & Co.
H.G. Wellington & Co.
Wood Gundy Inc.

LARGE NYC BASED

Arnhold & S. Bleichroeder Inc.
Asiel & Co.
Sanford C. Bernstein & Co.
D.H. Blair & Co.
Cowen & Co.
Cowen Securities Inc.
Daiwa Securities America Inc.
Deutsche Bank Capital Corp.
Dominick & Dominick Inc.
Dominick Investor Service Corp.
Dominion Securities Pitfield Inc.
Eberstadt Fleming Inc.
First Manhattan Co.
Furman Selz Mager Dietz & Birney Inc.
Glickenhause & Co.
Gruntal & Co.
Herzog, Heine, Geduld, Inc.
Josephthal & Co.
Keefe Bruyette & Woods Inc.
Ladenburg Thalmann & Co.
Laidlaw Adams & Peck, Inc.
Cyrus J. Lawrence Inc.
Mabon Nugent & Co.
MKI Securities Corp.
Carl Marks & Co.
Moore & Schley, Cameron & Co.
Moseley Securities Corp.
Neuberger & Berman
Nikko Securities Co. International Inc.
Nomura Securities International Inc.
Oppenheimer & Co.
Philips Appel & Walden Inc.
Rothschild Inc.
Tucker, Anthony & R.L. Day, Inc.
UBS Securities Inc.
Walsh, Greenwood & Co.

SMALL REGIONAL

Adams, Harkness & Hill, Inc.
Baker, Watts & Co.
Bartlett & Co.
Branch Cabell & Co.
Alan Bush Brokerage Co.
Butler, Wick & Co.
Cable Howse & Ragen
Carolina Securities Corp.
B.C. Christopher Securities Co.
Davenport & Co. of Virginia, Inc.
Equitable Securities Corp.
Ferris & Co.
Folger Nolan Fleming Douglas Inc.
Freehling & Co.
Gradison & Co.
Hanifen, Imhoff, Inc.
Hazlett, Burt & Watson, Inc.
Howe, Barnes & Johnson, Inc.
Wayne Hummer & Co.
Illinois Co.
Investment Corp. of Virginia
Legg Mason Masten Inc.
Midland Doherty Inc.
Milwaukee Co.
David A. Noyes & Co.
Parker/Hunter Inc.
Quinn & Co.
W.H. Reaves & Co.
Roulston Research Corp.
R. Rowland & Co.
Seidler Amdec Securities, Inc.
H.B. Shaine & Co.
I.M. Simon & Co.
Smith, Hague & Co.
Smith, Moore & Co.
Sterne, Agee & Leach, Inc.
Henry F. Swift & Co.
Weber, Hall, Sale & Associates, Inc.
Wilshire Associates
Young Smith & Peacock Inc.



LARGE REGIONAL

Advest Inc.
Robert W. Baird & Co.
Bateman Eichler, Hill Richards, Inc.
William Blair & Co.
Blunt Ellis & Loewi Inc.
Boettcher & Co.
J.C. Bradford & Co.
Alex. Brown & Sons Inc.
Dain Bosworth Inc.
Interstate Securities Corp.
Janney Montgomery Scott Inc.
Johnson Lane Space Smith & Co.
Edward D. Jones & Co.
Legg Mason Wood Walker Inc.
Montgomery Securities
Piper, Jaffray & Hopwood Inc.
Prescott, Ball & Turben, Inc.
Rauscher Pierce Refsnes, Inc.
Robinson-Humphrey Co.
Rotan Mosle Inc.
Sutro & Co.
Wedbush, Noble, Cooke, Inc.
Wheat, First Securities, Inc.

DISCOUNTERS

Baker & Co.
Brown & Co. Securities Corp.
Discount Brokers International, Inc.
Fidelity Brokerage Services Inc.
Gallagher Equities Inc.
Liss, Tenner & Goldberg Securities Corp.
National Financial Services Corp.
Newbridge Securities Inc.
Norstar Brokerage Corp.
Olde & Co.
Ovest Financial Services Inc.
Pace Securities, Inc.
Pacific Brokerage Services, Inc.
People's Securities Inc.
Quick & Reilly, Inc.
Rose & Co. Investment Brokers Inc.
Royal/Grimm & Davis, Inc.
Russo Securities Inc.
Charles Schwab & Co.
Security Pacific Brokers, Inc.
Muriel Siebert & Co.
Stockcross, Inc.
Texas First Brokerage Services, Inc.
Tradex Brokerage Service, Inc.
Wall Street Discount Corp.
Waterhouse Securities Inc.
York Securities, Inc.

COMMISSION INTRODUCING

Abel/Noser Corp.
Alpha Management Inc.
American Investment Group Inc.
Amivest Corp.
Anderson & Strudwick Inc.
Atlanta/Sosnoff Management Corp.
Balfour Securities Corp.
Balis & Zorn Inc.
Bernstein & Co.
Bishop Rosen & Co.
Blackburn & Co.
Blumenthal Securities, Inc.
Boston Institutional Services Inc.
Bradley Hummel & Co.
Brault Stafford & Co.
Bridge Trading Co.
Brimberg & Co.
Brittingham Inc.
A.T. Brod & Co.
Buckingham Research Group Inc.
N.B. Camerman & Co.
Capital Institutional Services, Inc.
Cohen Feit & Co.
Coleman & Co.
Collins & Co.
Comiteau Levine & Co.
Conklin Cahill Inc.
Conning & Co.
Corporate Bonds Inc.
Cresvale International Inc.
Daniels & Bell Inc.
Morris David & Sons Securities Inc.
Delafield Harvey Tabell Inc.
dePaolis & Co.
Douglas Stewart Inc.
Dratel Group Inc.
Dunhill Securities Inc.
Dunlevy & Co.
Federated Management Inc.
Fiduciary Financial Services Corp.
Finch Wilson & Co.
First Tryon Securities Inc.
Fourteen Research Corp.

COMMISSION INTRODUCING (Cont'd)

Stuart Frankel & Co.
Furman Anderson & Co.
Gilder Gagnon & Co.
C.L. Glazer & Co.
Goetz Batchker & Co.
Gordon Capital Inc.
Gordon Haskett Capital Corp.
Gordon Haskett & Co.
Frederick J. Graber & Co.
David J. Greene & Co.
Grenel & Co.
Gruss & Co.
Haberman Bros.
Hamerslag Kempner & Co.
Bernard Herold & Co.
P.R. Herzig & Co.
Hess Grant & Co.
Hoenig & Co.
Hoguet Muzinich Keller & Co.
Impact Securities Corp.
Kahn Brothers & Co.
Keane Securities Co.
M. Kimelman & Co.
Lipper Analytical Securities Corp.
Loeb Partners Corp.
Lynch Jones & Ryan
Marketfield Securities Ltd.
McConnell Securities Inc.
H.J. Meyers & Co.
Montag & Joselson
Moors & Cabot Inc.
Brean Murray Foster Securities Inc.
Ochsenhaut & Co.
William O'Neil & Co.
Pennsylvania Group Inc.
Propp & Co.
Reich & Tang Inc.
Reinert & Co. Inc.
David H. Rittmaster & Co.
Rochdale Securities Corp.
Rosenkrantz Lyon & Ross Inc.
Ruane Cunniff & Co. Inc.
Frank Russell Securities Inc.
Seligmann Harris & Co.
Sheriff Securities Corp.
Shields Capital Corp.
A. Gary Shilling & Co.
Shoenberg, Hieber Inc.
Shufro Rose & Ehrman
Silberberg Rosenthal & Co.
Martin Simpson & Co.
Sloate Weisman Murray & Co.
Spear Leeds & Kellogg Corp.

COMMISSION INTRODUCING (Cont'd)

R.C. Stamm & Co.
Standard & Poor's Securities Inc.
Starr Securities Inc.
Sterling Grace & Co.
Stralem & Co.
Strasbourg Pearson Tulcin Wolff Inc.
Stuart Coleman & Co.
T.J. Sullivan & Co.
Swergold, Chefitz & Sinsabaugh, Inc.
Troster Singer Corp.
Trubee Collins & Co.
Value Line Securities Inc.
W & D Securities Inc.
H.C. Wainwright & Co.
S.R. Weltz Jr. & Co.
Westminster Securities Corp.
Woodmere Securities Inc.
B.J. Young & Co.

OTHER

Adler, Coleman & Co.
Fred Alger & Co.
Beare Brothers & Co.
Boston Securities Associates, Inc.
Broadcourt Capital Corp.
Brokerage Clearance Services Inc.
Brown Brothers Harriman & Co.
P.R. Burke & Co.
Shelby Cullom Davis & Co.
Donaldson Lufkin & Jenrette Sec. Corp.
Ernst & Co.
Execution Services Inc.
Financial Clearing & Services Corp.
First Options of Chicago Inc.
Freeman Securities Co.
Albert Fried & Co.
Goldberg Securities Inc.
Icahn & Co.
Investors Advantage Inc.
Kaufmann, Alsborg & Co.
Kellner, Dileo & Co.
Lewco Securities Corp.
Miller Tabak Hirsch & Co.
Murfhey, Marseilles, Smith & Nammack
New York & Foreign Securities Corp.
Paris Securities Corp.
Carl H. Pforzheimer & Co.
Wm. E. Pollock & Co.
Regional Clearing Corp.
Robb, Peck, McCooey Clearing Corp.
Robb, Peck, McCooey/Trading Corp.
Securities Settlement Corp.
Spear, Leeds & Kellogg
Stokes, Hoyt & Co.
Transatlantic Securities Co.
Wall Street Clearing Co.
Weiss, Peck & Greer